



Appendix A:

Capital Improvements Programming

DEFINITIONS

The term **capital project** refers to any physical public betterment or improvement and the acquisition of property that is of a permanent nature and for public use.

The term **capital budget** or budget year refers to Baltimore County's plan to receive and expend funds for capital projects during the first fiscal year of the capital program.

The term **capital program** refers to Baltimore County's plan to receive and expend funds for capital projects during a six-year period that includes the current budget year and the five fiscal years thereafter.

LEGAL BASIS

Article VII of the *Baltimore County Charter* establishes procedures for budget and fiscal preparations. Section 705 relates specifically to the formulation of the capital budget and capital program. The charter provides for a budgetary process that includes the director of budget and finance, the planning board and the director of planning, the administrative officer, the County Executive and the County Council as the governing bodies or offices that review potential capital projects. The County Council has the authority to "decrease or delete any item in the budget."

CAPITAL IMPROVEMENT PROGRAM PROCESS

Capital Budget and Capital Program

At the direction of the county's administrative officer, each office, department, institution, board, commission or other agency of county government annually submits a list of proposed capital projects for the next six years to the director of budget and finance. After a preliminary review, the budget is forwarded to the Office of Planning.



The planning board reviews the capital budget and capital program during the months of January through March. All requesting agencies present their capital project requests to the planning board. During even calendar years, the planning board reviews capital project requests and makes recommendations for the amount and allocation of the bond referendum by programming funds for the appropriate two fiscal years, the budget year, and the rest of the capital program. During odd calendar years, the planning board reviews requests for changes to the budget and program due to emergencies or other compelling reasons. Nothing precludes the planning board from making major changes to the budget and the program in the odd calendar years. However, the most recently passed referendum provides fiscal parameters and the previous capital improvement program provides a guideline for capital project scheduling.

The planning board establishes an ad hoc committee on the capital budget and program. That committee presents its recommendations to the planning board for final vote. Board meetings include opportunity for public comment.

After consideration by the planning board, the director of planning submits a list of recommended projects and cost estimates for the six-year period to the director of budget and finance, who then reviews these recommendations with the county administrative officer. These recommendations along with the current expense budget are forwarded to the County Executive.

On or before April 16 (75 days prior to the end of the fiscal year), the County Executive submits the operating budget (current expense budget) and the capital budget and program to the County Council. The County Executive also submits a budget message to the County Council. The current expense budget submittal includes revenue estimates; debt service requirements; surplus and/or deficit amounts from the current fiscal year; expense estimates; a statement of bonded and other indebtedness; contingency reserves not to exceed 3% of the general fund; and a comparative statement of expenses and revenues for the previous fiscal year, the current fiscal year and the ensuing fiscal year. The capital budget and program submittal must include: a listing of capital projects to be undertaken during the next six fiscal years; a means for financing the capital projects; and receipts anticipated for the next fiscal year. The budget message must include a summary of the proposed current expense budget,



and the capital program in fiscal terms and in terms of work to be done; an outline of financial policies and important features of the current expense budget; a listing and rationale of major changes in financial policies, expenditures, appropriations and revenues as compared with the current fiscal year; and changes in the capital program as compared with the planning board's recommendations.

The County Council reviews the budget and holds a public hearing (between seven and 20 days after receiving it from the County Executive). The County Council has the authority to decrease or delete any item in the budget, but cannot increase any expenditure amount or add new projects for current or capital purposes. Also, the County Council cannot change revenue estimates except to correct mathematical errors or alter the form of the budget. On or before June 1st (on or before the first day of the last month of the fiscal year currently ending), the County Council adopts the current expense budget and the capital budget for the next fiscal year. The adoption of the budget is known as the Annual Budget and Appropriation Ordinance of Baltimore County. The fiscal year begins on July 1st and ends on June 30th.

Biennial Bond Referendum

Section 705, item (a) of Article VII of the *Baltimore County Charter* establishes procedures for the submission of data for referendum. Referendum questions related to the issuance of bonds are placed on the ballot in Baltimore County every general election year.

At the direction of the county's administrative officer, the director of planning submits the planning board's recommendations of borrowing for capital projects, to be undertaken for the next ensuing two fiscal years, to the director of budget and finance who then reviews the planning board's recommendations with the county administrative officer. After the review, and with consideration given to conformance with the existing capital program, the borrowing plan is submitted to the County Executive. The County Executive reviews the plan, adjusting the recommendations if necessary, and forwards it to the County Council. The County Council has the authority to approve, decrease or delete any item in the budget, but cannot increase project amounts or add projects to the plan. The County Council approves the bond ordinances, which specify the purpose and classes



of projects (e.g. schools, streets, parks, etc.), and then the borrowing questions are placed on the ballot in the November general election for voter approval. In Baltimore County, there is a general election every even numbered year.

FINANCIAL AND DEBT MANAGEMENT POLICIES & GUIDELINES

Baltimore County conducts an annual evaluation of debt capacity and control analysis, in order to preserve and enhance its general obligation debt ratings, which are currently “triple A” at all three major bond rating agencies. This evaluation serves as the basis upon which Baltimore County can structure its future debt issuances, within resources available, in order to assess the effect of such issuances on its credit standing and policy goals. In order to develop a framework for ensuring that the issuance of debt will not impair Baltimore County’s effort to maintain its current high credit ratings, the following formal debt management policies were established and related guidelines identified.

Policies

In 1993, Baltimore County established a formalized fund balance policy by instituting a Revenue Stabilization Reserve Account. The Revenue Stabilization Reserve Account is funded each year from unexpended and unencumbered appropriations from revenues in excess of budget estimates. The target fund level is 3% of the general fund budget.

Baltimore County has established certain debt and financial management targets. These include a debt-per-capita level of \$1,000 and an unreserved general fund balance to general fund revenues (which includes the Revenue Stabilization Reserve Account balance) of 5%.

Guidelines

- Baltimore County does not intend to issue tax or revenue anticipation notes to fund governmental operations.
- Baltimore County does not intend to have any fixed rate bond anticipation notes outstanding for a period of longer than two years.
- Baltimore County will update its debt affordability study each year in conjunction with its capital budget process.
- Baltimore County will budget contributions to Pay-As-You-Go (current expense) financing in each fiscal year.



- Baltimore County will ensure that the ratio of unreserved General Fund balance (including Revenue Stabilization Reserve Account balance) to General Fund revenues does not fall to the floor level (3%) for two consecutive years.
- Baltimore County will ensure that the rapidity of debt repayment on new net tax-supported debt does not fall below 25% retired in five years and 50% retired in 10 years. (As of June 30, 1998, Baltimore County had an above-average rapidity of repayment, at 40.2% in five years and 65.1% in ten years.)

SOURCES OF FUNDS

County Funds

General Funds

These funds come from the annual General Fund current expense budget.

Reallocated General Funds

These are General Funds reallocated from one project to another.

Metropolitan Operating Funds

In 1924, by an Act of the Maryland General Assembly, the metropolitan district was established to supply water and to provide sewerage and drainage systems to the residents of Baltimore County. These funds are generated from various charges assessed against customers of the metropolitan district.

Reallocated Operating Funds

These are Metropolitan Operating Funds reallocated from one project to another because of schedule changes, changes in priorities, or projects coming in under budget.

General Obligation Bonds

Bonds are borrowed funds. “General obligation” means that the redemption of bonds and payment of interest is guaranteed by the full faith, credit, and unlimited taxing power of the county. Before these bonds may be issued, they must be approved at a referendum held in each election year, approved by the County Council as a funding source in the budget year, and further approved at the time of actual issuance by a bond ordinance. Bonds are the primary source of capital financing.



Metropolitan Bonds

Metropolitan District Bonds are the same as General Obligation Bonds except that they are not required to be approved at referendum. Repayment of principal and interest comes from metropolitan district funds.

Federal/State/Other

Community Development Block Grant

Federal legislation enacted in 1974 combines six previous grant programs (urban renewal, model cities, neighborhood facilities, open space, historical preservation, and water and sewer) into a single block grant. The block grant can be used at the discretion of local government for broad community development programs, with priorities and funding levels established by local governments.

Program Open Space

These funds are to support recreation opportunities and come from the State of Maryland through the collection of the State Transfer Tax on real property.

State Waterway Improvement Fund

Funds provided by the Department of Natural Resources for improvements related to stormwater management and waterways.

State Aid - Other

State funds to assist Baltimore County in the financing of various capital projects.

Developer's Responsibility

Developer's contributions that are applied to projects providing facilities in approved subdivisions. The developer's contributions represent the developer's portion of the cost of the project.

Petitioner's Responsibility

Contributions made by the petitioner who requests a project be done by Baltimore County.

County Agricultural Preservation Tax

The county's share of the state agricultural transfer tax that is assessed on an agriculturally used property when the use is changed to non-agricultural.



Local Open Space Waiver Fees

Fees paid by developers to Baltimore County during the development process when the amount of required open space is less than 1/2 an acre and not adjacent to existing parkland.

Other

There are various other funding sources which may become available from time to time. When amounts are material, identifiable, and predictable, they will be cited as sources of funding in the capital budget.